



NEXTENERGY

AN ECONOMIC

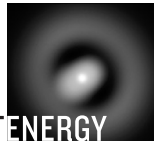
DEVELOPMENT STRATEGY

FOR THE NEXTMICHIGAN

Governor John Engler

HENRY FORD MUSEUM, DEARBORN

THURSDAY, APRIL 18, 2002



Governor John Engler

THURSDAY, APRIL 18, 2002

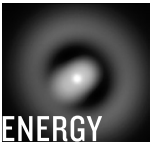
Thank you all for coming today for what I hope will be remembered as an historic announcement.

For more than one hundred years, Michigan has been headquarters to the auto industry. Detroit became the auto capital of the world because of men who were willing to take risks—R. E. Olds, William Durant, Louis Chevrolet, the Dodge Brothers and Henry Ford just to name a few.

Here in the Henry Ford Museum, we can see firsthand how Ford's unique genius and grand vision helped shape the industry and transform our nation's economy. For the early pioneers, it wasn't easy. In his autobiography, Ford discussed the tough choice he faced:

"The Edison Company offered me the general superintendency of the company but only on condition that I would give up my gas engine and devote myself to something really useful. I had to choose between my job and my automobile...I quit my job on August 15, 1899, and went into the automobile business."

I'd say Mr. Ford made the right choice. What a risk he took as a new century dawned. And his decision fundamentally changed life in the 20TH century.



Now, a new generation of leaders—and the decisions they make—will chart the course for the future of the transportation industry and at the same time have a huge impact on the quality of life in the 21st century.

Today, we focus on innovations and alternative energy technologies.

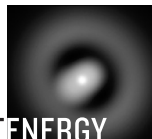
This new frontier, which ranges from hybrid vehicles to fuel cells and solar energy to wind energy, includes applications for almost everything we do—both mobile and stationary.

In one hundred years, future leaders will gather in this museum and see who won the race to power the world. The history of the 21st century will be on display right here. Cars and trucks that don't pollute. An America free from dependence on foreign oil. Vehicles, homes and factories powered by renewable, efficient sources of energy.

Michigan will lead the way because the men and women in this room are willing to take the risks, willing to let go of the old ways and willing to embrace the future and the change that comes with it.

With alternative energy technologies, including fuel cells, we can leapfrog the debate and political logjam over old-fashioned regulations like CAFE. Instead of spending billions for small incremental change, we should shift our focus to new energy technologies that can provide huge benefits—payoffs that make the Big Game look puny.

The possibilities and potential are limitless.



With all these benefits, the question is not if this method of producing electricity will become the dominant source of power; rather, the question is when—the end of this decade, the end of the next? Just as important, along the way, how do we make the transition? That's why we are here today.

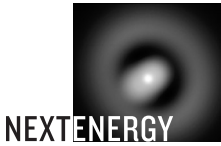
Michigan needs to lead the way in answering these questions.

Our goal must be to dramatically accelerate the commercialization of new technologies—and not just for vehicles, but also for stationary uses to power homes, factories and farms. And then there are portable applications, such as laptop computers, cell phones and PDAs. These applications may have the earliest opportunity for mass distribution.

When it comes to mobile applications, the change is already under way. In fact, we have here today the GM AUTONOMY, the Jeep Commander II and the Ford Focus—all fuel cell powered vehicles. As you walked in the door today, you saw our past and you saw our future.

These vehicles represent a staggering investment by the auto industry of \$4.5 billion in the development of fuel cells. That's already a lot of money, but experts estimate that the market for fuel cells will grow from the very modest \$220 million in 2000 to a whopping \$95 billion in 2010.

We can debate that estimate. Maybe it overstates the potential. Even if it's half that amount, this is a huge industry. Michigan must be home to this industry.



If there is one thing that I've learned as governor, it is that the process of renewal is difficult. Continuous improvement and constant effort are the only way to succeed.

We gather here today ready to take the next step. We've worked long and hard to get ready for this day. In fact, Michigan's plan reflects more than a decade of preparation.

Our challenge and our opportunity is to lead the world in the research, development and manufacture of alternative energy technologies.

So today, I am proud to launch NextEnergy—our plan to nurture innovation, strengthen collaboration and focus on long term growth and job creation in the alternative energy industry.

Ladies and gentlemen, the stakes are high. If we don't act, we put at risk nearly 200,000 jobs. That translates to a \$10 billion hit on our state economy if we lose these critical jobs that are either directly or indirectly tied to the engineering and manufacturing of engines and transmissions.

Michigan cannot sit back and assume that being home to the auto industry today guarantees we will remain home to this critical industry tomorrow. Our opportunity is to build on Michigan's strength. Our cluster of auto innovation must become a cluster of energy innovation.

Excellence in this cluster of innovation means more research, more investment and more new jobs bringing to market the world's next energy products.

NextEnergy is all about innovation—building partnerships between industry and academia to nurture research and



accelerate development in the laboratory, on the test track and for the marketplace.

NextEnergy recognizes that when it comes to new technology, collaboration is every bit as important as competition. All levels of government must work in tandem with our colleges and universities and the private sector.

And I don't just mean the automotive sector, but also the chemical, energy, and agriculture sectors of our economy. Because some of the most critical first technologies will be commercialized for non-automotive uses.

For example, I recently visited the headquarters of DTE Energy and was highly impressed. In the fast growing market for alternative energy technology, DTE Energy seeks to be a world leader.

Michigan's model for success may well be the unique tandem bike that is part of the vast collection here at the Henry Ford Museum. This bike was built for ten riders.

To get ahead, no one must be left behind. Everyone must pedal. And once we start on the road, we must pedal faster and faster to win the race.

As you can see in the booklet, NextEnergy is a detailed blueprint. This morning, I'd like to quickly highlight Michigan's NextEnergy strategy.

While substantial work is being done to advance alternative energy technologies and to develop commercial applications, it's being conducted at locations scattered around the globe. There is no headquarters.

Michigan will fill that vacuum by building the world headquarters of the alternative energy industry—the NextEnergy Center.

Designed in collaboration with the University of Michigan, the NextEnergy Center will develop additional college courses to ensure Michigan has the skilled workforce for this new industry. The center will also offer technical assistance and workshops to provide ongoing education opportunities and fund industry-university collaborative research and commercialization projects.

Most importantly, the center will serve as a comprehensive clearinghouse and information resource on alternative energy technologies.

Such an important complex should be in a special place. That's why the Michigan Economic Development Corporation (MEDC) will establish the Michigan NextEnergyZone—a 700-acre state-owned site in York Township near Ann Arbor that will become the locus the of the alternative energy cluster of innovation.

I know that neither Silicon Valley nor Research Triangle happened overnight, but what they had going for them was both leadership and location.

Michigan's NextEnergyZone shares important attributes with such success stories. We also have leadership and location and the NextEnergyZone will do for alternative energy what Silicon Valley did for information technology or Research Triangle did for life sciences in earlier times. I should note that we have already made great progress with Michigan's Life Sciences Corridor. The NextEnergyZone

will benefit from that positive experience.

The Zone, anchored by the NextEnergy Center will benefit from substantial tax and regulatory benefits provided by the state. For example, it will be designated as a tax-free Renaissance Zone. In addition, companies that make their home in the zone will receive a tax rebate based on the jobs they create in the zone.

The Zone may even be powered by a pilot alternative energy microgrid.

We will work with Michigan's congressional delegation, with others in Congress and with the Bush administration to fund a national component of the NextEnergy Center.

Designed to complement the work of the NextEnergy Center, the national program could act as a type of Underwriters Laboratory for the development of industry standards, certification systems and to identify research gaps and needs.

Such a lab would also contain a collaborative testing facility to offset onerous investment and permitting burdens and serve as a policy forum to develop federal legislative, regulatory and tax policies and model state and local regulations. In particular, this center could focus on how we develop the requisite infrastructure to support alternative energy delivery.

In addition to the benefits of locating in the Zone, our intent is to make Michigan the friendliest state in the nation for the alternative energy industry. These incentives include exemptions from the SBT and personal property tax for companies, or activities within companies, whose

primary focus is alternative energy research, development or manufacturing. These benefits apply to both suppliers and customers, firms and individuals.

We will also establish a Michigan NextEnergy Development Fund to leverage additional capital for industry expansion.

Another key step will be a comprehensive review of state environmental, utility and zoning regulations to establish a consistent permitting process for distributed generation and alternative energy facilities.

Next, we will adopt policies to spur demand for NextEnergy technologies. These include an exemption from the sales and use tax of any purchases of stationary and vehicular devices using alternative energy technologies. This exemption would expire in 10 years.

The state will also develop an implementation plan to purchase alternative energy vehicles for the state fleet and for mass transit buses as well as a plan for the acquisition of electric power from distributed generation sources.

To coordinate our strategy, I will appoint a NextEnergy Leadership Council that includes national representatives from industry, higher education, government and key associations. This body will provide critical advice on the implementation of our NextEnergy agenda on issues ranging from research investment to questions about intellectual property. The council will also work with both parties in the Michigan House and Senate to make the case for speedy passage of NextEnergy legislation.



Under the able leadership of CEO Doug Rothwell, the MEDC will implement a NextEnergy business development program. This includes visits to every Michigan company currently involved in alternative energy technology development and also to major domestic and international companies in the industry.

The goal of this effort will be to attract new major stationary or mobile fuel cell development projects to Michigan.

Finally, we will promote NextEnergy worldwide, positioning Michigan as a global leader in the alternative energy industry. One of the first examples is our new NextEnergy Web page—www.NextEnergy.org.

Another example will be our plan for Michigan to host an International NextEnergy Conference where industry and academic leaders can share innovations and work with government officials to develop new energy policy initiatives.

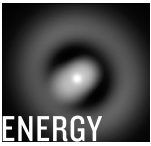
Given their amazing track record—five straight Governor's Cups for the most job-creating investment projects in the nation—I have every confidence that the MEDC will implement these recommendations as quickly as possible.

Ladies and gentlemen, NextEnergy reflects a positive vision for Michigan's future—a vision much like that of the industry pioneers of a century ago.

They were willing to take risks and so are we.

They were willing to work hard and so are we.

They were willing to work together and so are we.



And that is why I am so optimistic about the future.

Looking back on the history of the auto industry, historians cite many reasons why the industry developed in Detroit. Certainly, a good case can be made for the idea that at the turn of the last century, Detroit was already a leader in building engines for the ships that sailed the Great Lakes.

What's important is that one hundred years ago, the new auto industry clustered where engines were already being built.

My friends, using that history as our guide, we can make the end of the era of the internal combustion engine the beginning of a new age of prosperity based on the hydrogen fuel cell.

Let me close this morning with a final story about the man whose life is displayed all around us, Henry Ford.

It was in the middle of the night in June of 1896 when Henry Ford's neighbors along Bagley Avenue were woken up by a crashing noise.

They soon discovered it was their neighbor, fiddling on his *horseless carriage* at 2:00 in the morning. And the crashing noise they heard was Ford, using an axe to break down the wall of his workshop so that he could take what he called a *quadricycle* out on the street for a test drive.

For while he had enough know-how and engineering skill to build the amazing machine, he had failed to figure out how to get the *quadricycle* out of the shed when it was finished. It was too big to fit through the door.

I tell this story because like Henry Ford and his fellow auto pioneers, there is no doubt we will make mistakes in our quest to attract this critical industry. But the one mistake we will never make is being complacent. Because Michigan's future is at stake, and for us to succeed in building a cluster of innovation, we must adopt a culture of innovation and action. That is at the heart of NextEnergy.

Like many Michiganians, I have fond memories of cars that I have owned over the years—like my first car, a Buick that had no reverse gear and only turned right.

I still have the Olds 98 Touring Sedan that I rode to every county in the state during the 1990 campaign. Cars and trucks like those capture our imagination are part of Michigan history and they will never be forgotten.

But as we cherish our automotive past, we must be willing to embrace the future, and the future is alternative energy. As we always have, Michigan will lead. Michigan will build it, and they will come.

Thank you all very much.



John Engler
Governor



